

Approved as Submitted: June 4, 2003

**CITY OF MORGAN HILL
JOINT SPECIAL CITY COUNCIL
AND SPECIAL REDEVELOPMENT AGENCY MEETING
MINUTES – MAY 23, 2003**

CALL TO ORDER

Mayor/Chairperson Kennedy called the special meeting to order at 8:10 a.m.

ROLL CALL ATTENDANCE

Present: Council/Agency Members Carr, Chang, Sellers and Mayor/Chairman Kennedy
Absent: Council/Agency Member Tate.

DECLARATION OF POSTING OF AGENDA

City Clerk/Agency Secretary Torrez certified that the meeting's agenda was duly noticed and posted in accordance with Government Code 54954.2.

PUBLIC COMMENT

Mayor/Chairman Kennedy opened the floor to public comments for items not appearing on the agenda. No comments were offered.

City Council and Redevelopment Agency Action

WORKSHOP

1. WORKSHOP REGARDING PROPOSED 2003-2004 BUDGET

City Manager/Executive Director Tewes presented the Council with the proposed Fiscal Year 2003-04 Budget.

Mayor/Chairman Kennedy indicated that he, Council/Agency Member Sellers, City Treasurer Roorda and Finance Director Dilles currently serve on the Finance & Audit Committee. He recommended that there be discussion about possible revenue enhancement measures.

Council/Agency Member Sellers stated that the Finance & Audit Committee reviewed the proposed budget and possible options, indicating that the Committee did not offer recommended budget adjustments because it was felt that the budget is the responsibility of the entire Council.

Finance Director Dilles identified new possible revenue sources:

- Bring new businesses into town [e.g., auto dealer(s)]
- Expand existing businesses

- City-wide lighting and landscape district
- Utility tax
- Public Safety parcel tax
- Recreation parcel tax

Council/Agency Member Sellers stated that it was important to point out that these were long term solutions and that no one is thinking of imposing these revenue enhancement measures at this time. However, it was felt that these measures should be investigated. It needs to be understood that these revenue enhancement measures would need to be balanced with other budget considerations. He felt that long term budget considerations need to be considered for recreation services. He recommended the establishment of a Council subcommittee to discuss these issues.

Mayor/Chairman Kennedy stated that it was important to assess the community to determine what level of service it is willing to support in terms of revenue enhancement measures. This information needs to be determined soon. With respect to the reserves, he noted that the City's reserves are higher than other communities (at 40%). He stated that the reserves can be used to assist the City come in at a soft landing. The question is how much of the reserves are to be used.

City Treasurer Roorda felt that there was a threshold that the City could get by with as the City continues to study the budget. He recommended that the City consider increasing productivity to close the budget gap.

Council/Agency Member Sellers expressed concern with requesting staff to increase its productivity when this is already occurring. He noted that the Council is asking more of staff and deferring purchases and equipment necessary to perform day to day operations. He said that the Council has been asking staff to do more with less.

Mayor/Chairman Kennedy indicated that the Council/Agency would be making a decision on the budget that is work in progress. He inquired as to the Council/Agency's thoughts on the Finance & Audit Committee comments? Does the Council/Agency want to proceed with a survey of the community to see what it is willing to support?

Council/Agency Member Sellers recommended that the discussion of a possible survey on what the local community will support for different levels of service be agendaized for Council/Agency discussion.

Finance Director Dilles indicated that the following were steps taken to balance the budget:

- Vacancies remain unfilled
- Eliminated capital outlay costs
- Eliminated street maintenance transfers out
- Reduced training, travel and conference costs
- Increased transfers in from the Park Maintenance Account by \$100,000

- Did not include any across the board increases for employees
- Used \$370,000 of the General Fund reserves
- Used equipment replacement fund reserves

Mayor Pro Tempore/Vice-chair Chang expressed concern with the RDA funds.

Council/Agency Member Sellers said that the City needs to figure out a solution for RDA funds in August 2003 when the State decides what it will do with RDA funding. He did not believe that the City should react to the State budget cuts until they are known.

City Manager/Executive Director Tewes said that the Governor's original Vehicle License Fee (VLF) proposal would have resulted in the loss of \$1.5 million to the General Fund. However, the May revision was modified. The proposed VLF increase would make cities whole again. However, he is cautious because the Governor may not have the 2/3 vote required to increase the VLF.

Council/Agency Member Sellers recommended that the Council/Agency proceed with the budget process and revisit the budget when changes are proposed by the State. Further budget study sessions could be scheduled at that time.

Mayor/Chairman Kennedy recommended that staff prepare a "White Paper" that identifies what funds are immediately available.

Staff presented the Council/Agency with a Capital Improvements Program (CIP) budget power point presentation.

Mayor/Chairman Kennedy supported the use of reserves for the design of a regional soccer complex. He suggested that a SCRWA representative present a report on plans for a wastewater treatment plant expansion.

City Manager/Executive Director Tewes informed the Council/Agency that it scheduled another budget study session on June 11 and a public hearing on June 18.

Council/Agency Member Sellers inquired as to the cost for the new police station. It was indicated that the police station would cost \$5 million over a 25-year period. He inquired whether it would make sense to find revenues to pay off the facility at the front end.

City Manager/Executive Director Tewes indicated that a new general obligation bond would help the general fund pay for the police station upfront.

Council/Agency Member Sellers inquired whether it would make sense to finance the police station based on low interest rates. He recommended that funding sources be investigated.

Mayor/Chairman Kennedy felt that it may be helpful to have a sheet listing all costs for the police station and reviewing financing alternatives (e.g., loan versus using a portion of the General Fund reserves).

Mayor Pro Tempore/Vice-chair Chang stated that the City has been successful with projects based on a “pay as you go” philosophy. Now, there is some thought being given to borrowing to finance projects.

Council/Agency Member Sellers said that there are a lot of options available to pay for facilities. He felt that the City can turn around the police building asset in 20+ years. He stated that sometimes it may make sense to borrow and save money for other projects.

Mayor/Chairman Kennedy noted that interest rates are at a historical all time low. He indicated that the City has been frugal and proceeded in a “pay as you go” philosophy, preserving revenues. He felt that the City’s stability could be protected by borrowing funds.

Mayor Pro Tempore/Vice-chair Chang stated that should the City move forward with a new police facility and needs to borrow \$2.5 million, she recommended that the City use \$1 million from the reserves in order to reduce the loan repayment amount.

Mayor/Chairman Kennedy recommended that the Council/Agency come up with a criteria/option for financing the facility.

Council/Agency Member Sellers inquired whether there are other additional opportunities that could be realized at the Community & Cultural Center such as increasing staffing levels and/or marketing the facility?

Recreation and Community Services Manager Spier indicated that two components are being considered: 1) an art component, and 2) marketing to let out an RFP.

Council/Agency Member Carr stated that the CIP is based on certain assumptions. He did not know the best way to discuss the assumptions as he did not believe that the assumptions have been defined. He recommended that the assumptions be discussed, possibly in an RDA workshop. He was not sure as to the timing of the adoption of the CIP based on the assumptions.

There was discussion about the proposed expansion of the El Toro Youth Center. It was noted that funding was not identified for this expansion. It was indicated that the expansion could be facilitated by borrowing from future CDBG funds, reducing the funds available for other projects. However, CDBG funds are based on an assumption that the federal government would continue this funding source.

Council/Agency Member Carr did not believe that the Council/Agency studied how projects would be funded. The Council/Agency needs to know where funding resources are coming from and the impacts that they may have on other projects.

City Manager/Executive Director Tewes indicated that staff will be conducting the studies necessary to evaluate projects' funding sources next year.

Council/Agency Member Sellers recommended that projects be discussed as they come up. He felt that there is a multi-year issue.

Mayor/Chairman Kennedy inquired whether it would make more sense to spend more time studying the CIP budget.

Council/Agency Member Sellers noted that staff suggests that the Council/Agency return with its thoughts and comments at the next scheduled budget session.

Mayor/Chairman Kennedy recommended that each Council/Agency member identify CIP items for discussion at the next budget session.

Council/Agency Member Sellers felt that the City needs to plan for any federal and/or State budget changes, but not over react to them. He felt that the City has some latitude based on the RDA. He would support identification of further cuts, as necessary. He stated that he would minimize his use of the Council's conference and travel budget. He stated that he could not continue to support a 40% reserve and that he would not support the budget with a high reserve (40%). He felt that a 25% reserve was high but that it would help cushion the budget. He said that there was no quantitative data to support a 40% reserve.

Mayor Pro Tempore/Vice-chair Chang felt that the budget was independent of the reserves. She felt that the reserve policy needs discussion and refinement. She would support a one time use of the reserves.

Council/Agency Member Sellers felt that the City has opportunities for significant revenue increases (e.g., Transient Occupancy Tax,), noting that the City cannot continue to operate in the negative.

Mayor/Chairman Kennedy clarified that there is no proposal in the budget to change the 40% reserve policy.

Council/Agency Member Carr stated that he was not sure whether the Council/Agency could separate the budget and the reserve policy in order to proceed with a five year budget plan.

Mayor/Chairman Kennedy indicated that the Finance & Audit Committee did not take a position on changing the reserve policy.

Mayor Pro Tempore/Vice-chair Chang stated that she was not proposing changes to the budget. However, achieving a soft budget landing and increasing revenues was a subject for further discussion. She did not recommend changing the reserve policy with this budget.

Mayor/Chairman Kennedy felt that this was a well prepared budget. He noted that this was not the first time that the Council/Agency has reviewed the budget numbers. He indicated that the budget is not

dipping too much into the reserves. He recommended that the budget be approved, that there be discussion of the CIP and that the Council/Agency continue to work on the reserve policy. Items that will help the City get through these economic times are new sources of revenue and efficiencies in the City's operation. He stated that he would not oppose reducing the 40% reserves to 25% if used on a one time basis to enhance revenues and/or close gaps between expenditures and revenues.

ADJOURNMENT

There being no further business, Mayor/Chairman Kennedy adjourned the meeting at 12:00 p.m.

MINUTES RECORDED AND PREPARED BY:

IRMA TORREZ, CITY CLERK/AGENCY SECRETARY